

ICPS newsletter[®]

Raising pensions: political windfall or time bomb?

The Government decision to introduce monthly targeted assistance to pensioners is not a far-sighted policy. Already in 2005, contributions to the Pension Fund and Budget funds for social benefits will not be enough to cover regular payouts of these additional amounts. The Government will be faced with a choice: increase the Budget deficit, accumulate arrears on the supplements, or cut these payments. What's more, the raise violates the principles of social justice and will threaten slower future legalization of the economy as public confidence in the Government is undermined

On 18 September 2004, the Cabinet of Ministers approved the introduction of additional targeted payments to pensioners to push pensions up to the minimum subsistence level established for disabled citizens, UAH 284.69. At first glance, this is a positive step, as it should raise the incomes of 11.4mn pensioners whose monthly benefits are below subsistence level. That the decision was made in the run-up to the presidential election proves that the candidates are seriously competing for voters and in that sense is the sign of democratic traditions taking shape in Ukraine. However, was this decision well-thought-out and properly calculated? Did the politicians responsible for the decision have enough information about both probable and inevitable implications?

Where's the money?

According to Yevhen Zhovtiak, a member of the Verkhovna Rada Budget Committee, raising pensions to the minimum subsistence level will mean increasing monthly expenditures on pensions by UAH 1.1bn. In other words, financing these additional payments in 2004 alone, starting from September, will take an additional UAH 4.4bn. In 2005, given that the minimum subsistence level for disabled citizens will be raised to UAH 300, Budget expenditures on additional targeted payments will pass the UAH 15bn mark. These Budget items are supposed to be financed by the Pension Fund and the State Budget.

After the August pension raise, Pension Fund spending reached UAH 2.9bn per month, while revenues (excluding Budget transfers) stood at only UAH 2.8bn. With

the additional targeted payments, Pension Fund expenditures should grow to UAH 4bn per month. Clearly, Pension Fund revenues will not suffice to finance this pension raise, and they will certainly not suffice in 2005, as increasing the Fund's revenues depends mostly on increasing the levels of declared wages. So, the main source of financing for these additional targeted payments will have to be the State Budget.

Although the relevant line item is missing in the State Budget, the Government can cover additional targeted payments in 2004 using surplus privatization revenues. However, these revenues, which are by their very nature temporary, cannot guarantee funding for the *regular* payment of additional targeted benefits. The draft 2005 State Budget has written in privatization revenues of UAH 4bn. However, there is no item allocating funds for additional targeted payments. Thus, the Government will be forced to choose between increasing the deficit, delaying the supplementary payments, or reducing those payments.

An unsatisfactory leveling

Using supplemental targeted payments to raise pensions to the minimum subsistence level for disabled citizens actually cancels out the positive achievements of the country's pension reform. After pensions were re-calculated, pension rates definitely became more fair, as the rates now took the recipient's employment record and career wages into fuller account. Now 11.4mn pensioners are expecting another "leveling," albeit at a minimal level.

On the other hand, minimum pensions will surpass the minimum wage, which will destroy incentives to keep working for

World Bank calls People's Voice Project one of its best

World Bank Director for Ukraine, Belarus and Moldova Luca Barbone has called ICPS's People's Voice Project among the most successful World Bank projects in Ukraine.

"The most successful World Bank projects in Ukraine are the Programmatic Adjustment Loan, the Social Investment Fund and the People's Voice Project," the *Interfax-Ukraine* news agency quoted Mr. Barbone as saying 14 September 2004.

The People's Voice Project was developed by the International Centre for Policy Studies and launched in 1999 with financing from the World Bank and the Canadian International Development Agency (CIDA). Its aim is to improve local governance, to strengthen public and government cooperation, and to introduce mechanisms for involving the public and procedures for facilitating efficient, responsible and open government.

In February 2004, the project went into its second phase, implemented jointly by ICPS and PADCO, an American consultancy working in Ukraine since 1992. For more information about this project, visit us at <http://www.pvp.org.ua/>.

those approaching pensionable age (55 for women and 60 for men).

Having finally made the decision to introduce additional targeted payments in order to raise pensions to the minimum subsistence level and to somewhat raise payments to the disabled, the Government ignored other impoverished layers of the population, such as families with many children and unemployed mothers. For them, the minimum subsistence level in 2004 has been set at UAH 80–115, and the draft 2005 Budget sets this figure at UAH 80–130. Thus, Government statements that they are implementing Art. 46 of the Constitution, which states that "pensions and other types of social benefits and social

assistance that constitute the main source of income should ensure a living standard that is not lower than the minimum subsistence level," are premature.

The day after tomorrow

The danger is that such politically-motivated decisions pose more threats than they bring advantages in the long term. The problems that will inevitably arise with the need to further finance such pension raises will undermine the already low public confidence in the Government. This is the price for decisions that pursue temporary interests and are not based on economic realities.

Instead of making quick, politically-expedient decisions, the Government should have focus on explaining and strengthening the existing

positive results of the pension reform and to demonstrate its readiness to continue contributing to processes that will make it possible to secure stable contributions to the Pension Fund and augment social benefits to impoverished Ukrainians. Specifically, this would actually support high rates of economic growth and spur the legalization of personal incomes. However, bringing incomes out of the shadow economy will only be possible if public confidence in the Government grows. And this, unfortunately, cannot be expected after adopting decisions that will immediately create a whole new class of dissatisfied citizens and set a social time-bomb down the line.

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University teachers get a helping hand

The International Centre for Policy Studies has become involved in the Higher Education Support Program of the Open Society Institute and is participating in carrying out the Academic Fellowship Program for the 2004–2005 academic year. The program's goal is to help higher education in Belarus, Moldova, Russia, and Ukraine

On 17–19 September 2004, the first seminar, "Developing an Active Teaching Strategy Curriculum," for scholars participating in the Academic Fellowship Program was hosted in the ICPS conference hall. The seminar's purpose was to help each and every participant, young academics, to develop a model for their own courses, applying the active teaching strategy.

Future seminars in this program will be dedicated to:

- methods of evaluating student knowledge,
- raising effectiveness when teaching large groups, and
- developing critical thinking among students through interactive teaching methods.

Academic Fellowship Program

The Academic Fellowship Program aims at helping post-secondary institutions in

ACTIVE TEACHING is a method that promotes the intellectual involvement of students and, thus, facilitates greater absorption of educational materials. Research data shows that, compared to the standard lectures, effectiveness rises from 5% to 70% with active teaching.

Belarus, Moldova, Russia, and Ukraine introduce modern approaches to teaching and positive changes in the social sciences. One of the ways to achieve this goal is to encourage young, promising academics to return to university positions in their home countries after studying abroad, and to stimulate their professional development.

The Academic Fellowship Program will be carried out in Belarus, Moldova, Russia, and Ukraine over three years and includes three components:

- **INTERNATIONAL SCHOLARS FELLOWSHIP PROGRAM (ISFP):** the ISFP brings highly qualified international scholars from around the world to teach at universities in the region.
- **RETURNING SCHOLARS FELLOWSHIP PROGRAM (RSFP):** the RSFP represents a conscious strategy to combat "brain drain" in the region. The program aims at supporting young and talented academics and scientists who, after studying abroad, return to university positions or start teaching at universities in their home countries.
- **SUPPORT FOR COMMUNITY OUTREACH AND UNIVERSITY TEACHING PROGRAM (SCOUT):** the SCOUT provides follow-on support to alumni of the Edmund S. Muskie/Freedom

Slovak experts will evaluate economics of campaign platforms

ICPS and the Institute for Economic and Social reforms (Bratislava) have launched a "Transfer of Slovak Economic Reform Know-How During Pre- and Post-Election Debates in Ukraine" project.

The upcoming presidential election offers an excellent opportunity to put economic policy debate into the spotlight. Slovakia's reform experience could enrich the economic policy debates of candidates running for the presidency and increase awareness among the general public, specialists and both current and potential policy-makers, about viable policy alternatives for problems facing Ukraine at the moment.

The project includes pre- and post-election activities. For the pre-election phase, experts have selected five main economic issues that are being raised among presidential candidates and analyzed them in the light of the transition and EU accession experience of Slovakia and other V4 countries (Poland, Hungary, Czech Republic), the policy options and the choices made. They have prepared policy briefs on each of the five themes—business environment, taxation, poverty reduction, healthcare, and pensions.

As soon as the new Government has drafted its plan of action after the election, two detailed policy papers on the hottest issues facing this Government will be produced by the Slovak and other V4 country experts in this project. Together with the policy briefs, they will publish these papers in both specialized and popular publications. A wrap-up seminar will then be held in Ukraine with the participation of Slovak and Ukrainian economists, including Government specialists.

For more information about the project, visit us at http://www.ineko.sk/english/project_ukraine.htm.

Support Act Graduate Fellowship Program who return to university positions or start teaching at universities in their home countries.

For more about the Academic Fellowship Program visit http://www.soros.org/initiatives/hesp/focus_areas/afp. For further information, contact Olesya Kotsiumbas by telephone at (380-44) 238-7588, or via e-mail at okotsiumbas@icps.kiev.ua.

icps newsletter is a weekly publication of the International Centre for Policy Studies, delivered by electronic mail.

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